

Review Questions and Final Exam

Course name:	Essential Retirement Tax Guide
Course number:	1026N
Number of questions:	Review 75 Final exam 75
Prerequisite:	None
Course level:	Basic
Recommended CPE credit:	15 CPE hours
Recommended study time:	15 hours
Course format:	Interactive self study CPE credit calculated as 100% of total study time (i.e. 50 minute hour)
Reference text:	<p><i>Essential Retirement Tax Guide</i> by Twila Slesnick, Ph.D., EA, and Attorney John Suttle, CPA</p> <p>Paperback: 410 pages</p> <p>Publisher: Nolo</p> <p>ISBN: 1-4133-0912-7</p> <p>First edition (December 2008)</p>
Subject classification:	Taxation
Course last updated:	July 7, 2009
Learning objective:	This course reviews how changes that may occur when you retire can affect your taxes and deductions.
Instructions:	<p>This copy of the exam can be used to answer questions while offline.</p> <p>Please note that you will still need to enter your answers online by logging into the course system with your User ID and Password.</p>

- 1) You can never be taxed on more than 85% of your Social Security benefits.
True
False
- 2) Your grandfather gave you 100 shares of MNO stock which he originally bought for \$3,000. On the date he gave you the stock, it was worth \$2,000. You later sell the stock for \$1,000. Because you have a loss on the sale, you use the stock's fair market value to calculate your loss.
True
False
- 3) You are not entitled to claim your full standard deduction if your income is greater than \$150,000.
True
False
- 4) The alternative minimum tax (AMT) is a completely separate tax with its own definitions of taxable income.
True
False
- 5) For AMT purposes, medical expenses are NOT deductible.
True
False
- 6) Home equity debt is mortgage debt other than acquisition debt.
True
False
- 7) Points are considered a type of prepaid mortgage interest and are deductible.
True
False
- 8) The IRS does NOT allow you to deduct seller-paid points.
True
False
- 9) One of the advantages of a reverse mortgage is that you can deduct the interest.
True
False
- 10) Assessments by homeowners' associations to raise funds for improvements are NOT deductible.
True
False
- 11) The IRS defines a casualty as a sudden, unexpected and unusual event.

True
False

12) When your property is stolen, your theft loss amount is calculated as the current fair market value of the property, less \$100.

True
False

13) You are required to report the sale of your principal residence on your tax return only if you have a taxable gain on the sale.

True
False

14) If your business is actually a hobby, you are not permitted to claim a loss.

True
False

15) You can deduct start-up expenses in the year they occur, as long as you actually start your business within five years.

True
False

16) You are permitted to deduct the cost of business-related education that helps you maintain or improve skills that you already have and that are required for your existing business.

True
False

17) If the primary purpose is business, but you spend more than 50% of your time on personal activities, you must allocate your travel expenses between business and pleasure.

True
False

18) The simplest type of the allowable depreciation methods is the straight-line method.

True
False

19) You must use the straight-line depreciation method if you use a car more than 75% of the time for business.

True
False

20) Owen sells insurance and uses an office inside his home to meet with his customers on a regular basis. He uses the space exclusively for business. Owen's office space qualifies for the home office deduction.

True
False

21) A net operating loss (NOL) is a business loss that you are permitted to claim in a prior year or in one or more future years.

True
False

22) Once you establish a defined benefit plan, you are only required to make contributions when you have a profitable year.

True
False

23) Roth IRA contributions are fully tax deductible.

True
False

24) To qualify for the earned income credit you must have earned income.

True
False

25) The credit for the elderly or disabled is available for those who are disabled regardless of age.

True
False

26) If you name someone other than your spouse as beneficiary for your health savings account (HSA), the funds must be distributed upon your death and will be subject to income tax.

True
False

27) Non-prescription drugs qualify for tax-free treatment under HSA rules if they are prescribed by a physician.

True
False

28) Medical expenses are 100% deductible on Schedule A.

True
False

29) If your doctor has diagnosed obesity and recommends a weight-loss program, the cost of the program is deductible.

True
False

30) Iris traveled to a city 500 miles away from her home for medical care. She also meets the other requirements that allow her to deduct lodging as a medical expense. However, she may deduct no more than \$250 per night.

True
False

31) You may deduct insurance premiums you pay for policies that cover medical care and prescription drugs for you, your spouse, and your dependents.

True
False

- 32) If you are chronically ill, you may deduct the cost of your care.
True
False
- 33) You may deduct the value of your time or service as a charitable contribution.
True
False
- 34) If you donate cash to a qualified organization and receive nothing in exchange, your donation will be fully deductible as long as your contribution isn't too large relative to your income.
True
False
- 35) The charity is responsible for estimating the market value of a used clothing and household goods donation.
True
False
- 36) When you donate publicly traded stock and calculate your deduction based on the stocks fair market value, your deduction generally will be limited to 30% of your AGI.
True
False
- 37) When you use a donor-advised trust, your donation is held in trust and contributions are made to a variety of charities.
True
False
- 38) If you attend a convention as a member of a charitable organization or church, you may deduct your travel costs.
True
False
- 39) If you have excess contributions to a 30% limit organization, the excess will also be subject to the 30% of AGI limit in later years.
True
False
- 40) The Lifetime Learning Credit allows you to claim 20% of your eligible expenses (tuition and required fees) up to a maximum credit of \$2,000.
True
False
- 41) You do not have to be enrolled in a degree program to qualify for the Hope Credit.
True
False

- 42) The beneficiary of a 529 Plan doesn't have to pay tax on distributions that are used to pay qualified education expenses.
True
False
- 43) Each 529 Plan account may have multiple beneficiaries.
True
False
- 44) If, as a beneficiary, you distribute any remaining funds from your 529 Plan but do not use them to pay for your education expenses, you must pay income tax plus a 10% penalty on the portion of the distribution that is attributable to investment earnings.
True
False
- 45) You may deduct tax preparation costs for taxes imposed by state and local taxing authorities.
True
False
- 46) You may deduct the administrative cost of maintaining your investments.
True
False
- 47) If you own rental property and you deduct the mortgage interest as a rental expense, the mortgage interest you pay is also deductible as investment interest.
True
False
- 48) Annuity payments from an employer's retirement plan are considered investment income.
True
False
- 49) Taxes you pay to a state where you don't live are deductible.
True
False
- 50) The tax code allows you to claim either a deduction or a credit for the foreign taxes you pay from foreign securities.
True
False
- 51) You are entitled to deduct the full cost of improvements on rental property in the year you pay for them.
True
False
- 52) Bob drives his car whenever he must maintain his rental property. In the first year, he uses the actual vehicle expenses rather than the standard mileage rate to calculate his travel deduction. He must use the actual expenses method for as long as he uses that car for business.

True
False

53) The land on which your rental property sits is eligible for depreciation.

True
False

54) You must use straight-line depreciation when depreciating your rental home.

True
False

55) If you use your car more than 50% of the time to take care of your rental property, you must use the declining balance method of depreciation.

True
False

56) Loan points and other loan fees associated with the purchase of rental real estate must be amortized.

True
False

57) Unpaid rent is considered a nondeductible expense.

True
False

58) Bill owns two homes and is buying a new beach house. He may deduct the mortgage interest on the third home.

True
False

59) Your home is considered a rental home if you and your family used the home for no more than 14 days or no more than 10% of the days it was rented, whichever was greater.

True
False

60) When determining which rental expense you may deduct in the current year and which must be carried over to future years, you are required to claim your expenses in a particular order.

True
False

61) A secured auto loan is always a better financing alternative than using a home equity loan.

True
False

62) Ad valorem property taxes are deductible on your federal income tax return.

True
False

- 63) If you live in California, you have the choice of taking a sales tax deduction or claiming the income tax deduction.
True
False
- 64) You can enter into a secured loan agreement with anyone.
True
False
- 65) The minimum interest rule requires lenders to charge at least a certain rate of interest.
True
False
- 66) You may claim a bad debt deduction if you cosign on a loan.
True
False
- 67) Everyone is entitled to claim a personal exemption on his or her income tax return.
True
False
- 68) If you pay medical expenses for a dependent, you may claim those expenses as though they were your own.
True
False
- 69) If you cosign for a home loan for another person, you may deduct the mortgage interest you actually pay even though it is not your home.
True
False
- 70) You may claim a tax benefit for any prepaid qualified tuition for any school term in the next 12 months.
True
False
- 71) Contributions and investment earnings from a Coverdell ESA are completely tax free to the beneficiary as long as the funds are used for qualified education expenses.
True
False
- 72) An account may be established for the beneficiary of a 529 plan as long as they are younger than 21.
True
False
- 73) To qualify as a deduction, you must make alimony payments in cash.
True
False

74) If you pay someone else's medical expenses, there is an unlimited exclusion from gift taxes for medical expenses paid directly to a medical care provider.
True
False

75) When someone dies, you must deduct medical expenses in the year the services were provided.
True
False

Exam Name: Essential Retirement Tax Guide
--Final Exam

1) Social Security benefits are never subject to income tax.
True
False

2) If you inherit property, your adjusted basis is usually:
a) The original cost of the property.
b) The amount you receive when you sell the property.
c) The book value of the property on the date you inherit the property.
d) The fair market value of the property on the owner's date of death.

3) When you retire, you must itemize your deductions and file Schedule A with your income tax return.
True
False

4) When calculating your alternative minimum tax (AMT):
a) All items that are deductible for regular tax purposes are also deductible for AMT.
b) You can take the standard deduction.
c) You must include some income that is excluded for regular tax purposes.
d) The AMT calculation takes into account dependency exemptions.

5) If you paid an extraordinary amount of state income taxes during the year, it decreases the chance that you will be subject to AMT.
True
False

6) Bob purchased his home in 1986 with a 30-year mortgage.

Original purchase price \$250,000.

The remaining principal on the original loan is \$125,000.

In 2000, he borrowed \$30,000 with the house as security, to remodel the bathrooms and kitchen.

He still owes \$20,000 on that loan.

Current home value \$350,000.

He would like to obtain a home equity loan for \$40,000 to buy a sailboat. Which of the following is true?

a) The equity in Bob's home is \$125,000
b) Bob cannot obtain the home equity loan because he still owes money on the original home improvement loan.

- c) Bob cannot obtain the home equity loan because the debt exceeds the equity in the home.
d) The interest on the home equity loan of \$40,000 will be fully deductible.
- 7) Points, or loan origination fees, are deductible as mortgage interest.
True
False
- 8) You may deduct seller-paid points even though you didn't actually pay them yourself.
True
False
- 9) An advantage of a reverse mortgage is:
a) You are allowed to deduct the interest that accrues on a reverse mortgage.
b) Closing costs are very low.
c) It allows you to tap into the equity of your home.
d) It is generally available to homeowners of any age.
- 10) Which one of the following assessments is deductible?
a) Garbage pickup
b) Title registration
c) Municipal water service
d) Repair to sidewalks
- 11) Termite damage is considered a casualty loss for tax deduction purposes.
True
False
- 12) Sandy had a locket stolen from her locker at the gym. She originally purchased the locket in 1970 for \$500 and it is now worth \$5,000. The deductible loss from the theft of the locket is:
a) Zero
b) \$ 500
c) \$4,500
d) \$5,000
- 13) Frank is single and owns the home he has lived in for the past ten years. Frank will be able to exclude up to \$500,000 of gain when he sells his home.
True
False
- 14) The IRS defines "showing a profit motive" as:
a) Making a profit every year.
b) Making a profit three years in a row.
c) Making a profit three out of five years.
d) Making a profit five out of ten years.
- 15) You may deduct up to _____ of start-up expenses that you incurred before your business officially began.
a) \$1,000
b) \$2,500

- c) \$4,000
 - d) \$5,000
- 16) The IRS does NOT let you deduct the cost of:
- a) Courses required to maintain a professional license.
 - b) The cost of going to professional meetings related to your business.
 - c) Training in a new field of business.
 - d) Tuition, fees, and books required for professional seminars related to your business.
- 17) If you travel out of town for business, you may deduct the full cost of your travel, lodging, and meals.
- True
 - False
- 18) You spend \$1,000 on a new computer for your business. You elect to recover the cost using straight-line depreciation. Your depreciation deduction for the third year is:
- a) \$100
 - b) \$200
 - c) \$500
 - d) -0-
- 19) Bob owns a computer repair business and uses his car 40% of the time for his business. What depreciation method must Bob use for the car?
- a) Declining balance
 - b) Double Declining Balance
 - c) Curved line
 - d) Straight line
- 20) To claim a home office deduction, you must use the space exclusively for business.
- True
 - False
- 21) If you have a net operating loss (NOL), you may carry the loss back:
- a) One year
 - b) Two years
 - c) Five years
 - d) Ten years
- 22) What type of retirement plan is best if the net income for your business is in the \$15,000 or less range?
- a) SEP
 - b) 401(k)
 - c) SIMPLE
 - d) SARSEP
- 23) Which of the following is true about a Roth IRA?
- a) Contributions are sometimes deductible.
 - b) You cannot contribute to a Roth IRA after age 70½.
 - c) You must begin taking a required minimum distribution when you reach age 70½.
 - d) Distributions are entirely tax-free if you satisfy certain criteria.

24) To be eligible for the earned income credit you must have earned income and a qualifying child.

True

False

25) Hank, age 37, was disabled for 9 months this year when he broke his ankle and was unable to work at his job as a children's party clown.

Because of this disability, Hank qualifies for the credit for the elderly or disabled for the related tax year.

True

False

26) Which of the following is TRUE about a Health Savings Account (HSA)?

a) You may contribute once you turn 65 and are covered by Medicare.

b) Your contributions are taxed on withdrawal.

c) You may name a beneficiary to receive any funds left in the account when you die.

d) The money in the account is taxed annually.

27) Hank is 57 years old and in good health. If he uses HSA funds for anything other than qualified medical expenses, he must pay income tax, plus a 10% penalty, on the amount he withdraws.

True

False

28) If a drug is available without a prescription, then the cost is not deductible, even if you have a prescription for it.

True

False

29) Which one of the following is a NONDEDUCTIBLE medical expense?

a) Acupuncture visit to reduce pain in your neck.

b) Chiropractic care to ease back pain.

c) Contact lenses to correct your vision to 20/20.

d) Cosmetic surgery procedure to reduce visible wrinkles around your eyes.

30) You may deduct the cost of attending a conference related to your own chronic illness, if your attendance is recommended by your doctor.

True

False

31) Which one of the following types of insurance is deductible on a personal tax return?

a) Life insurance

b) Insurance against loss of limbs and other disabilities

c) COBRA payments

d) Insurance that provides guaranteed pay if you are hospitalized.

32) To qualify for a long-term care deduction, you must have been certified "physically or cognitively chronically ill" by a doctor, social worker, or licensed health care worker within the last 12 months.

True

False

33) If you offer free use of your vacation home to a charitable organization you may deduct the rental value of the property for that period of time as a charitable contribution.

True

False

34) If make a cash donation of _____ or more to a qualified charity, you must obtain a written acknowledgement from the charity.

a) \$ 50

b) \$100

c) \$250

d) \$500

35) Your deduction for used clothing and household goods is limited to the fair market value of those items.

True

False

36) You donate a Southwestern art painting by R. C. Gorman to an art museum that is a qualified 50% organization.

The museum plans to hang the art in one of its galleries.

The art is appraised at \$10,000.

Your basis in the art is \$3,000.

Your charitable contribution deduction is:

a) \$ 3,000

b) \$ 7,000

c) \$10,000

d) \$13,000

37) Angie donates a lump sum to a donor-advised trust that is sponsored and controlled by a public charity. Contributions are made to a variety of charities over the next five years. Because she relinquished control of the funds the sponsoring organization, she may deduct the full amount of her gift in the year she made the donation.

True

False

38) Your deduction for all of your charitable contributions for the year can never exceed _____ of your AGI.

a) 10%

b) 20%

c) 35%

d) 50%

39) If your contributions in any category exceed your deduction limit for that category, then you may carry over your excess deduction for up to:

a) 2 years

b) 3 years

c) 5 years

d) 10 years

40) To qualify for the Lifetime Learning Credit:

- a) You must be a full time student.
 - b) You must be at least a half-time student.
 - c) You must be enrolled in a degree program.
 - d) You may take just a single course.
- 41) You can claim the Hope Credit in only one tax year.
True
False
- 42) Section 529 plans:
a) Allow you to deduct contributions.
b) Allow you to claim a credit for contributions.
c) Allow your contributions grow tax free as long as funds are used only for qualified expenses.
d) Allow a donor to avoid the normal gift tax rules on donations over the annual limit.
- 43) If you decide to change the beneficiary in your 529 plan, the new beneficiary must be a member of the former beneficiary's family.
True
False
- 44) You are required to report your 529 plan contributions on your federal income tax return.
True
False
- 45) Investment expenses are deductible for tax-exempt income.
True
False
- 46) Which one of the following investment expenses is NOT deductible as a miscellaneous itemized deduction?
a) Safe deposit box rental to store gold coins purchased as investments.
b) Subscriptions to investment publications that provide you with information and advice about your investments.
c) IRA account fees.
d) Investment seminars.
- 47) Joe borrows \$10,000 from a friend to purchase some stock. He pays \$300 in interest to his friend. Since he used the money to purchase stock, the \$300 is considered an investment interest expense and is deductible.
True
False
- 48) Which one of the following qualifies as investment income?
a) Income from passive activities.
b) Tax-exempt income.
c) Nonqualified dividends
d) Business income
- 49) Anne lives in Texas but owns rental property in another state. She files a nonresident tax return in the other state. The taxes paid to the other state are deductible on Anne's federal tax return.
True

False

50) You CANNOT claim a deduction for taxes paid on income from countries that appear on the federal government's terror list.

True

False

51) Which of the following would be considered a repair of a rental home?

- a) Replacing the roof.
- b) Replacing appliances.
- c) Installing new flooring.
- d) Replacing a broken door.

52) To use the standard mileage rate method for a car used in your rental business:

- a) You must use your car at least 50% of the time for business.
- b) You are not required to keep actual records of your expenses.
- c) You will have to always use the mileage method from that point forward.
- d) You must have used the method in the first year you used your car in your rental business.

53) When you claim a depreciation deduction for rental property, you may claim a depreciation deduction for the building and the land on which it sits.

True

False

54) When calculating depreciation of office equipment used in operating your rental properties, use a useful life of ___ years.

- a) 5
- b) 7
- c) 10
- d) 15

55) You can use the Section 179 deduction for appliances purchased for your rental property.

True

False

56) Amortization applies to intangible assets that are not physical in nature.

True

False

57) Deductible rental expenses include:

- a) Unpaid rent.
- b) Education costs for rental seminars.
- c) Advertising a vacancy to find a tenant.
- d) Travel costs to find a rental property to purchase.

58) If you own a second home that you do not rent to anyone else when you are absent, you can deduct your mortgage interest and real estate taxes as itemized deductions, subject to certain limits.

True

False

- 59) Your second home qualifies as a personal residence if it was rented out:
- a) For less than half of the calendar year.
 - b) For less than 60 days.
 - c) For less than 30 days.
 - d) For less than 15 days.
- 60) When claiming expenses for your rental property, which expense must be claimed first?
- a) Real estate taxes.
 - b) Depreciation
 - c) Mortgage interest.
 - d) Any casualty loss deduction allocable to the rental.
- 61) One of the advantages of an auto loan secured by the auto itself is that you can deduct the interest on Schedule A-Itemized Deductions.
- True
 - False
- 62) The tax credit for buying a hybrid car phases out once the manufacturer sells _____ hybrids (all models combined).
- a) 60,000
 - b) 80,000
 - c) 100,000
 - d) 500,000
- 63) If you live in a state that has no state income tax, you can deduct sales tax from your federal income tax.
- True
 - False
- 64) If you owe the bank \$10,000 for a loan and the debt is forgiven, you must report the \$10,000 as income on your tax return.
- True
 - False
- 65) The MAXIMUM you may lend to anyone without ANY tax consequences is _____, assuming the borrower does not use the loan proceeds to purchase income-producing assets.
- a) \$ 5,000
 - b) \$ 10,000
 - c) \$ 25,000
 - d) \$100,000
- 66) To deduct the loss from a bad debt, one of the requirements is that the debt must have become worthless in the year for which you claim the loss.
- True
 - False
- 67) For a person you want to claim as a dependent to qualify as a relative, the person must be related to you or your spouse.
- True

False

68) The full child tax credit is \$_____ per qualifying child.

- a) \$ 200
- b) \$ 500
- c) \$1,000
- d) \$2,000

69) John paid the mortgage for his son's home for six months last year while his son was unemployed. Even though John is not a cosigner on the loan, he may deduct the interest that he paid on the loan.

True
False

70) When you pay for the educational expenses of dependent family members during the current tax year:

- a) You cannot claim a tax benefit for prepaid tuition.
- b) Your dependent must be in his or her first three years of postsecondary education to qualify for the Hope Credit.
- c) You can claim both the Hope and Lifetime Learning Credits in the same year for different students.
- d) You cannot claim a deduction for college tuition and fees.

71) If you invest in a Coverdell ESA:

- a) You may make contribution to the account as long as the child is your dependent.
- b) Only the person who sets up a Coverdell ESA may make contributions.
- c) Total contributions to one or more Coverdell accounts for a given beneficiary may not exceed \$5,000
- d) The control of the account transfers to the beneficiary when he or she turns 18.

72) Funds in a 529 plan may be used for postsecondary education only.

True
False

73) For your alimony payments to be deductible:

- a) You must make your payments in cash, stock or property.
- b) You can live with the person to whom you are making payments for no more than half of the year.
- c) Your voluntary payments cannot exceed \$2,000 per month.
- d) There must be a written divorce decree, legal separation agreement, or decree of support that requires you to make payments.

74) If you pay someone else's medical expenses, the payments are not subject to gift tax as long as you make them directly to the medical care provider.

True
False

75) Income tax returns of estates and trusts are called:

- a) Supplemental returns.
- b) Fiduciary returns.
- c) RIP returns.
- d) Beneficiary returns.